

***Town of Locust Grove
Mayes County, Oklahoma***

Independent Auditor's Report and Financial Statements

**For the Fiscal Year Ended
June 30, 2014**

Town of Locust Grove
Mayes County, Oklahoma

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Independent Auditor's Report

We have audited the accompanying financial statements of the business-type activities of the Town of Locust Grove as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Town of Locust Grove, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2015, on our consideration of the Town of Locust Grove's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Locust Grove's internal control over financial reporting and compliance.


Violet F. Kirkendall CPA, PC
Certified Public Accountant

January 22, 2016

Violet F. Kirkendall CPA, PC

Certified Public Accountants

323 W 1st St.

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Town of Locust Grove, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Locust Grove's basic financial statements, and have issued our report thereon dated January 22, 2015.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the Town of Locust Grove's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted matters involving the internal control over financial reporting and its operation that I consider to be significant deficiencies. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis misstatement or noncompliance with applicable requirements of a governmental entity. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that (a) a material misstatement of the entity's financial statements, or (b) noncompliance with applicable governmental entities, that is more than inconsequential will not be prevented or detected. I consider the deficiencies in internal control described in the accompanying schedule of finding as items 2015-1 to be significant deficiencies.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be a material weakness. However, I believe that the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Locust Grove's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Violet F. Kirkendall CPA, PC
Certified Public Accountants

January 22, 2016

Town of Locust Grove
Mayes County, Oklahoma
Statement of Net Assets
June 30, 2014

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 370,772.38	\$ 35,425.04	\$ 406,197.42
Investments	20,000.00	38,048.61	58,048.61
Prepaid Assets		38,798.80	38,798.50
Other Receivables		7,344.51	7,344.51
Accounts receivable		80,654.45	80,654.45
Due from other Governments	97,293.18	12,434.18	109,727.36
Total Current Assets	<u>488,065.56</u>	<u>212,705.59</u>	<u>700,771.15</u>
Non-current Assets:			
Restricted Assets:			
Cash and Cash Equivalents		544,618.43	544,618.43
Capital Assets:			
Property, Plant and Equipment, net	942,436.16	6,758,001.80	7,700,437.96
Total Non-current Assets	<u>942,436.16</u>	<u>7,302,620.23</u>	<u>8,245,056.39</u>
Other Assets	0.00	76,174.00	76,174.00
Total Assets	<u>1,430,501.72</u>	<u>7,591,499.82</u>	<u>9,022,001.54</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	60,033.37	50,439.17	110,472.54
Accrued Interest Payable		4,516.29	4,516.29
Payable from Restricted Assets:			
Meter Deposits Payable		49,520.00	49,520.00
Current portion of Notes Payable		170,704.13	170,704.13
Total Current Liabilities	<u>60,033.37</u>	<u>275,179.59</u>	<u>335,212.96</u>
Non-Current Liabilities:			
Notes Payable – net of Current Portion	0.00	2,605,701.02	2,642,061.02
Total Liabilities	<u>60,033.37</u>	<u>2,880,880.61</u>	<u>2,977,273.98</u>
NET ASSETS			
Invested in capital assets, net of related debt	942,436.16	3,981,596.65	4,924,032.81
Restricted		495,098.43	495,098.43
Designated for a specific purpose	385,393.00		385,393.00
Unrestricted	42,639.19	233,924.13	276,563.32
Total Net Assets	<u>\$ 1,370,468.35</u>	<u>\$ 4,710,619.21</u>	<u>\$ 6,081,087.56</u>

The accompanying notes are an integral part of the combined financial statements.

Town of Locust Grove
Mayes County, Oklahoma
Statement of Activities
For the Year Ended June 30, 2014

Functions/Programs:	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General Government	\$ 293,146.74	\$ 7,243.85	\$ 5,672.54	\$	\$ (280,230.35)
Library Fund	57,334.49	2,915.75	7,234.84		(47,133.90)
Public Safety & Judiciary					
Fire	20,800.00	55,492.84	1,550.00		36,242.84
Police	527,789.88	252,388.51	2,500.00		(272,901.37)
Transportation:					
Streets	34,785.64	0.00			(34,785.64)
TOTAL GOVERNMENTAL ACTIVITIES	<u>933,856.75</u>	<u>318,040.95</u>	<u>17,007.38</u>	<u>0.00</u>	<u>(598,808.42)</u>
Business Type Activities					
Sewer	1,071,898.92	820,464.60	0.00	36,360.00	(215,074.32)
TOTAL	<u>\$ 2,005,755.67</u>	<u>\$ 1,138,505.55</u>	<u>\$ 17,007.38</u>	<u>\$ 36,360.00</u>	<u>\$ (813,882.74)</u>
		Primary Government			
		Governmental Activities	Business-Type Activities	Totals	
Changes in Net Assets:					
Net (expense) revenue		\$ (598,808.42)	\$ (215,074.32)	\$ (813,882.74)	
General revenues:					
Taxes:					
Sales Taxes			900,924.09	900,924.09	
Cigarette Tax					
Motel Tax			15,379.66	15,379.66	
Franchise Tax			37,772.48	37,772.48	
Alcoholic Beverage Tax			11,463.43	11,463.43	
Other Income					
Restricted for transportation purposes:					
Motor Vehicle Tax			14,336.64	14,336.64	
Transfers – Internal Activities		(344,535.92)	344,535.92	0.00	
Sale of Property		1,575.00		1,575.00	
Interest Income		788.80		788.80	
Total General Revenues		<u>637,704.18</u>	<u>344,535.92</u>	<u>982,240.10</u>	
Change in Net Assets		38,895.76	129,461.60	168,357.38	
Net Assets-beginning		<u>1,331,572.59</u>	<u>4,581,157.61</u>	<u>5,912,730.20</u>	
Net Assets-ending		<u>\$ 1,370,468.35</u>	<u>\$ 4,710,619.21</u>	<u>\$ 6,081,087.56</u>	

The accompanying notes are an integral part of the combined financial statements.

*Town of Locust Grove
Mayes County, Oklahoma
Balance Sheet – Governmental Funds
June 30, 2014*

	<u>General Fund</u>	<u>Street & Alley Fund</u>	<u>Public Safety</u>	<u>Volunteer Fire Special</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
ASSETS						
Cash	\$	\$ 150,494.47	\$ 130,016.98	\$ 49,159.39	\$ 46,798.52	\$ 370,772.38
Investments					20,000.00	20,000.00
Due from other governments	<u>96,419.05</u>	<u>874.13</u>				<u>97,293.18</u>
Total Assets	<u>\$ 96,419.05</u>	<u>\$ 151,368.60</u>	<u>\$ 130,016.98</u>	<u>\$ 49,159.39</u>	<u>\$ 66,798.52</u>	<u>\$ 493,762.54</u>
LIABILITIES & FUND EQUITY						
Liabilities:						
Deficit cash balance	\$ 5,696.98	\$	\$	\$	\$	\$ 5,696.98
Accounts payable	<u>48,082.88</u>	<u>7,437.58</u>			<u>4,512.91</u>	<u>60,033.37</u>
Total Liabilities	<u>53,779.86</u>	<u>7,437.58</u>	<u>0.00</u>	<u>0.00</u>	<u>4,512.91</u>	<u>65,730.35</u>
Fund Equity:						
Restricted		143,931.02	130,016.98	49,159.39	62,285.61	385,393.00
Unrestricted	<u>42,639.19</u>					<u>42,639.19</u>
Total Fund Equity	<u>42,639.19</u>	<u>143,931.02</u>	<u>130,016.98</u>	<u>49,159.39</u>	<u>62,285.61</u>	<u>428,032.19</u>
Total Liabilities & Fund Equity	<u>\$ 96,419.05</u>	<u>\$ 151,368.60</u>	<u>\$ 130,016.98</u>	<u>\$ 49,159.39</u>	<u>\$ 66,798.52</u>	<u>\$ 493,762.54</u>

The accompanying notes are an integral part of the combined financial statements.

*Town of Locust Grove
Mayes County, Oklahoma
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
For the Year Ended June 30, 2014*

Total Fund Balances – Governmental Funds	\$ 428,032.19
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	<u>942,436.16</u>
Net Assets of Governmental Activities	<u>\$ 1,370,468.35</u>

The accompanying notes are an integral part of the combined financial statements.

Town of Locust Grove
Mayes County, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2014

	<u>General Fund</u>	<u>Street & Alley Fund</u>	<u>Public Safety</u>	<u>Volunteer Fire Special</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
REVENUES						
Charges for Services	\$ 17,531.25	\$	\$	\$	\$	\$ 17,531.25
Fines	212,977.51				24,791.00	237,768.51
Grants	5,672.54			1,350.00	9,784.84	17,007.38
Rental of Property	1,575.00					1,575.00
Donations						
Investment Income	230.12	285.74	272.94			788.80
Other	6,212.85			41,908.34	14,620.00	62,741.19
Taxes	<u>712,364.42</u>	<u>14,336.64</u>			<u>15,379.66</u>	<u>742,080.72</u>
Total Revenues	<u>956,563.69</u>	<u>14,622.38</u>	<u>272.94</u>	<u>43,458.34</u>	<u>64,575.50</u>	<u>1,079,492.85</u>
EXPENDITURES						
Personal Services	60,044.52					60,044.52
Maintenance and Operation	611,430.22	34,785.64		49.83	195,945.61	842,211.30
Capital Outlay						0.00
Total Expenditures	<u>671,474.74</u>	<u>34,785.64</u>	<u>0.00</u>	<u>49.83</u>	<u>195,945.61</u>	<u>902,255.82</u>
Net Change in Fund Balance before transfers	285,088.95	(20,163.26)	272.94	43,408.51	(131,370.11)	177,237.03
Transfer to other funds	<u>(225,638.13)</u>	<u>118,897.79</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>(106,740.34)</u>
Net Change in Fund Balance	59,450.82	98,734.53	272.94	43,408.51	(131,370.11)	70,496.69
Fund Balance - Beginning	(16,811.63)	45,196.49	129,744.04	5,750.88	193,655.72	357,535.50
Fund Balance - Ending	<u>\$ 42,639.19</u>	<u>\$ 143,931.02</u>	<u>\$ 130,016.98</u>	<u>\$ 49,159.39</u>	<u>\$ 62,285.61</u>	<u>\$ 428,032.19</u>

The accompanying notes are an integral part of the combined financial statements.

***Town of Locust Grove
Mayes County, Oklahoma
Reconciliation of Change in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2014***

Net Change in Fund Balances – Total Governmental Funds	\$ 70,496.69
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Amounts reported for governmental activities in the statement of activities are different because:

In the governmental funds, capital outlays are reported as expenditures while in the government-wide statement of activities, depreciation expense is reported to allocate those expenditures over the life of the assets.

Depreciation expense	<u>(31,600.93)</u>
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Change in Net Assets of Governmental Activities	<u>\$ 38,895.76</u>
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The accompanying notes are an integral part of the combined financial statements.

Town of Locust Grove
Mayes County, Oklahoma
Statement of Net Assets
Proprietary Funds-Enterprise Funds
June 30, 2014

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 35,425.04
Investments	38,048.61
Inventory	12,434.18
Taxes Receivable	38,798.80
Other Receivables	7,344.51
Accounts receivable	<u>80,654.45</u>
Total Current Assets	212,705.59

Non-current Assets:

Restricted Assets:

Cash and Cash Equivalents	544,618.43
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Capital Assets:

Property, Plant and Equipment, net of accumulated depreciation	6,758,001.80
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Other assets	<u>0.00</u>
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Total Assets	<u>7,302,620.23</u>
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LIABILITIES

Current Liabilities:

Accrued Interest Payable	4,516.29
Accounts Payable	50,439.17
Payable from Restricted Net Assets:	
Meter Deposits Payable	49,520.00
Current Portion of Notes Payable	<u>170,704.13</u>
Total Current Liabilities	275,179.59

Non-Current Liabilities

Notes Payable – net of current portion	<u>2,605,701.02</u>
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Total Liabilities	<u>2,880,880.61</u>
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NET ASSETS

Invested in capital assets	3,981,596.65
Restricted	495,098.43
Unrestricted	<u>233,924.13</u>
Total Net Assets	<u>\$ 4,710,619.21</u>

The accompanying notes are an integral part of the combined financial statements.

*Town of Locust Grove
Mayes County, Oklahoma
Statement of Revenues, Expenses and
Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2014*

Operating Revenues:

Fee Revenues	\$ 816,156.99
Other Revenues	<u>1,418.35</u>
Total Revenues	<u>817,575.34</u>

Operating Expenses:

Personal services	196,220.16
Licenses and Fees	22,291.43
Equipment Rental	4,825.21
Outside Services	413,558.33
Insurance Expenses	82,018.34
Fuel and Oil	15,451.57
Miscellaneous	12,244.78
Postage and Fees	5,721.17
Depreciation	74,780.48
Plant and Distribution Expenses	116,900.15
Telephone and Utilities	67,478.66
Repairs and maintenance	<u>47,336.05</u>
Total Operating Expenses	<u>1,058,826.33</u>
Operating Income	<u>(241,250.99)</u>

Non-Operating Revenues (Expenses):

Sale of Property	2,969.50
Interest expense	(13,152.83)
Grant Revenues	36,360.00
Transfers In – Taxes and Operating Transfers	<u>344,535.92</u>
Total Non-Operating Revenues (Expenses)	<u>370,712.59</u>

Change in Net Assets	129,461.60
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Total Net Assets-Beginning	<u>4,581,157.61</u>
Total Net Assets-Ending	<u>\$ 4,710,619.21</u>

The accompanying notes are an integral part of the combined financial statements.

*Town of Locust Grove
Mayes County, Oklahoma
Statement of Cash Flows
Proprietary Fund Type - Enterprise Fund
For the Year Ended June 30, 2014*

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 782,175.89
Cash paid for personnel costs	(196,220.16)
Cash paid for operations and services	<u>(917,907.64)</u>
Net Cash Provided (Used) by Operating Activities	<u>(295,213.14)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Sales Tax Received – Town of Locust Grove	<u>305,737.12</u>
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Proceeds received from town funds	
Purchase of capital assets	(1,198,880.63)
Grant revenues	36,360.00
Principal paid	1,265,431.38
Interest paid	<u>(15,306.30)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>87,604.45</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest and dividends on investments	<u>(80.24)</u>
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Net increase (decrease) in cash 98,048.19

Cash and cash equivalents, beginning of year 520,043.89

Cash and cash equivalents, end of year *(Note 1)* \$ 618,092.08

Reconciliation of Operating Income to Net Cash Provided (Used) by

Operating Activities:

Operating income	\$ (241,250.99)
Depreciation Expense	74,780.48
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Net changes in assets and liabilities:	
Accounts payable	(82,423.07)
Taxes Receivable	(40,755.54)
Other Assets	41,588.18
Meter Deposits Payable	(9,519.04)
Accrued Interest Payable	(2,233.71)
Accounts receivable	<u>(35,399.45)</u>
Net cash provided (used) by operating activities	<u>\$ (295,213.14)</u>

The accompanying notes are an integral part of the combined financial statements.

NOTES TO THE FINANCIAL STATEMENTS

*Town of Locust Grove
Mayes County, Oklahoma
Notes to the Financial Statements
June 30, 2014*

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following notes to the financial statements are an integral part of the Town's financial statements.

The Town's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide Statement of Net Assets and Statement of Activities, Financial Accounting Standards Board (FASB) pronouncement and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Proprietary funds also apply the same principles. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of this Note.

For the fiscal year ended June 30, 2004, the Town implemented the new financial reporting requirements of GASB Statements No. 33 and 34. As a result, an entirely new financial presentation format has been implemented. This implementation will affect comparability with reports issued in prior years.

FINANCIAL REPORTING ENTITY

The Town's financial reporting entity is comprised of the following:

Primary Government:	Town of Locust Grove
Blended Component Unit:	Locust Grove Public Works Authority

In determining the financial reporting entity, the Town complies with the provisions of Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity" and includes all component units of which the Town appointed a voting majority of the units' board and the Town is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the Town Council or the component unit provides services entirely to the Town. The component unit's fund is blended into those of the Town's by appropriate activity type to comprise the primary government presentation.

Component Unit	Brief Description/Inclusion Criteria	Reporting
Locust Grove Public Works Authority	Created to finance, develop and operate The water and sewer services activities.	Enterprise Fund

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the Town has no discretely presented component units.

*Town of Locust Grove
Mayes County, Oklahoma
Notes to the Financial Statements
June 30, 2014*

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

BASIS OF PRESENTATION

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government (the Town). These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-accounting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

Fund Financial Statements: Fund financial statements of the reporting entity are organized into funds each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Fund are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- A. Total assets, liabilities, revenues or expenditure/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- B. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

GOVERNMENTAL FUNDS

General Fund. This is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

PROPRIETARY FUND

Enterprise Fund. Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise fund:

Locust Grove Public Works Authority	Accounts for activities of the public trust in providing Water and sewer services to the public.
-------------------------------------	--------------------------------------------------------------------------------------------------

MAJOR AND NON-MAJOR FUNDS

Major:	General fund
	Proprietary Fund: Locust Grove Public Works Authority
Non-Major:	Street & Alley Fund
	Public Safety
	Volunteer Fire Special
	Cemetery

*Town of Locust Grove
Mayes County, Oklahoma
Notes to the Financial Statements
June 30, 2014*

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)
MEASUREMENT FOCUS, BASIS OF ACCOUNTING

Measurement focus is a term used to describe “when” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

MEASUREMENT FOCUS

The government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applied to them.

BASIS OF ACCOUNTING

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expense, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available”. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of account, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

ASSETS, LIABILITIES AND EQUITY

Cash and Cash Equivalents

For the purpose of Statement of Net Assets, “cash, including time deposits” includes all demand, savings accounts and certificates of deposit of the Town. For the purposes of the proprietary fund Statement of Cash Flows, “cash and cash equivalents” includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

*Town of Locust Grove
Mayes County, Oklahoma
Notes to the Financial Statements
June 30, 2014*

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include sales, use and franchise taxes. Business-type activities report water and sewer charges as its major receivable.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax and other intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis of accounting. Interest and investment earnings are recorded only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year end and not yet received. Utility accounts receivable comprise the majority of proprietary fund receivables.

Capital Assets

The accounting treatment over property, plant and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost is actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

The range of estimated useful lives by type of asset is as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	20-60
Building improvements	20-60
Utility system	20-60
Equipment	3-20

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in government-wide statements.

*Town of Locust Grove
Mayes County, Oklahoma
Notes to the Financial Statements
June 30, 2014*

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Equity Classifications

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted net assets – consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, the unreserved further split between designated. Proprietary fund equity is classified the same as in the government-wide statements.

Compensated Absences

The Town's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences (when material) is recorded as long-term debt in the government-wide financial statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

Employee Pension Plans

The Town does not offer a pension plan to its employees.

REVENUES, EXPENDITURES AND EXPENSES

SALES TAX

The town presently levies a sales tax on taxable sales within the Town. The sales tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Oklahoma Tax Commission. The Tax Commission receives the sales tax approximately on month after collection by vendors. The sales tax is recorded entirely in the General Fund. Sales taxes collected by the State in June and July (which represent sales for May and June) are received by the Town in July and August have been accrued and are included under the caption “Due from other governments”.

USE TAX

The town levies a use-tax on personal property purchased outside the town limits but stored, used or consumed within the town. The use tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission, which is one month after the tax is received by the vendors. The use taxes are allocated entirely to the General Fund. Use taxes collected by the State in June and July and received by the Town in July and August are included under the caption “Due from other governments”.

*Town of Locust Grove
Mayes County, Oklahoma
Notes to the Financial Statements
June 30, 2014*

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

OPERATING REVENUES AND EXPENSES

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expense not related to capital and related financing, noncapital financing or investing activities.

EXPENDITURES/EXPENSES

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:]

Governmental Funds – By Character: Current (further classified by function), Debt Service,
Capital Outlay
Proprietary Funds – By Operating and Non-Operating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature as a local government unit, the Town and its component units are subject to various federal, state and local laws and contractual regulations. An analysis of the Town's compliance with significant laws and regulations and demonstration of its stewardship over Town resources follows:

FUND ACCOUNTING REQUIREMENTS

The Town complies with all state and local laws and regulations requiring the use of separate funds. The legally required funds used by the town include the following:

<u>Fund</u>	<u>Required By</u>
Municipal Authority Fund	Trust Indenture

FUND EQUITY RESTRICTIONS

DEFICIT PROHIBITION

Title 11, Section 17-211 of Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund. The Town complied with this statute in all material respects for the year ended June 30, 2014.

*Town of Locust Grove
Mayes County, Oklahoma
Notes to the Financial Statements
June 30, 2014*

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (cont'd)

REVENUE RESTRICTIONS

The Town has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
Gasoline Excise Tax	Street and Alley Purposes
Commercial Vehicle Tax	Street and Alley Purposes
Water and Sewer Revenue	Utility Operations

For the year ended June 30, 2014 the Town complied, in all material respects, with those revenue restrictions.

UNINSURED AND UNCOLLATERALIZED DEPOSITS

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations or surety bonds. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the Town must have a written collateral agreement approved by the board of directors or loan committee. As reflected in Note III A., all deposits were fully insured or collateralized.

Deposits and Investment Laws and Regulations

Investments of the Town (excluding Public Trusts) whose population exceeds 3,000 according to the latest census information are limited by state law to the following:

- 1- Direct obligations of the U.S. Government, its agencies or instrumentalities to the payment of which the full faith and credit of the Government of the United States is pledged, or obligations to the payment of which the full faith and credit of this state is pledged;
- 2- Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions;
- 3- With certain limitation, negotiable certificates of deposit, prime bankers acceptance, prime commercial paper and repurchase agreements with certain limitations;
- 4- County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district;
- 5- Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligation of national mortgage associations;
- 6- Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs a., b., c., and d.

Public trusts created under O.S. Title 60 are not subject to the above noted investment limitations and are primarily governed by any restrictions in their trust or bond indentures. For the year ended June 30, 2014, the Town and its public trusts complied, in all material respects, with these investment restrictions.

*Town of Locust Grove
Mayes County, Oklahoma
Notes to the Financial Statements
June 30, 2014*

NOTE 3: DETAILED NOTES ON TRANSACTIONS CLASSES/ACCOUNTS

CASH AND INVESTMENTS

State statutes govern the Town's investment policy. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Investments are stated at cost. The Town invests entirely in certificates of deposit.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town's cash deposits, including interest-bearing certificates of deposits, are maintained in financial institutions. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2014, none of the Town's investments were exposed to custodial credit risk because there were uninsured or uncollateralized.

Component Unit Deposits

The bank deposits of \$618,092 of the discretely presented component unit were fully insured with FDIC Insurance and securities held in the Authority's name.

Accounts Receivable

Accounts receivable of the governmental activities consists of franchise tax, occupation tax, sales tax, motor vehicle collections and gasoline tax, and alcoholic beverage tax. Accounts receivable of the business-type activities consists of utilities receivable.

Accounts receivable as of June 30, 2014 is as follows:

Governmental Activities	Business-Type Activities	Total
<u>\$ 97,293</u>	<u>\$ 80,654</u>	<u>\$ 177,947</u>

*Town of Locust Grove
Mayes County, Oklahoma
Notes to the Financial Statements
June 30, 2014*

NOTE 3: DETAILED NOTES ON TRANSACTIONS CLASSES/ACCOUNTS

Capital Assets

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
<i>Capital assets being depreciated:</i>				
Building and	\$1,343,521	\$ 0	\$ 0	\$ 1,343,521
Less accumulated depreciation	290,000	\$ 31,601	\$ 0	321,601
Governmental activity capital assets, net	<u>\$1,053,521</u>			<u>\$ 1,021,920</u>
Business-type activities:				
<i>Capital assets being depreciated:</i>				
Land and Distribution System	\$ 114,246	\$	\$	\$ 114,246
Buildings and Improvements	114,333			114,333
Equipment	7,178,926			7,178,926
Construction in Progress	0	866,197		866,197
Total capital assets being depreciated	7,407,505	\$ 866,197	\$ 0	8,273,702
Less accumulated depreciation for:				
Sewer System and equipment	1,660,524	\$ 74,780	\$ 0	1,735,504
Business-type activity capital assets, net	<u>\$5,746,981</u>			<u>\$ 6,538,198</u>

OTHER LONG-TERM DEBT

As required by the Oklahoma State Constitution, the Town (excluding Public Trusts) may not incur any indebtedness that would require payment from resources beyond the current fiscal year revenue, without first obtaining voter approval. For the year ended June 30, 2014, the Town incurred no such indebtedness.

NOTE 4: LONG TERM DEBT

CHANGES IN LONG TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2014:

	<u>Balance June 30, 2013</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance June 30, 2014</u>	<u>Amount Due Within One Year</u>
Business-Type Activities:					
Notes Payable	<u>\$1,749,333</u>	<u>\$1,118,791</u>	<u>\$ 91,719</u>	<u>\$2,776,405</u>	<u>\$ 170,704</u>

*Town of Locust Grove
Mayes County, Oklahoma
Notes to the Financial Statements
June 30, 2014*

NOTE 4: LONG TERM DEBT (continued)

LONG TERM DEBT

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of note payable and capitalized lease obligations.

Long term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as revenue and payments of principal and interest are reported as expenditures. The accounting for long-term debt of the proprietary fund is the same in the fund statements as it is in the government-wide statements.

LONG TERM DEBT

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

Business-Type Activities

As of June 30, 2015, the long-term debt payable from proprietary fund resources consisted of the following:

The Authority issued a promissory note dated February 15, 1996, for the purpose of wastewater treatment improvements and refinancc. The note bears a variable interest rate with quarterly installments in August, November and February, including interest, until August 2023. The balance at June 30, 2015 was \$945,250. The note is secured by the water distribution system.

The Authority issued a promissory note dated September 15, 1999, for the purpose of wastewater treatment plant improvements. The note bears and interest rate of 1.260% per annum with semi annual installments in September and March until March 2018. The balance at June 30, 2015 was \$470,760. The note is secured by the water distribution system.

Town of Locust Grove
Mayes County, Oklahoma
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014

A. Audit Findings

NONE

B. Questioned Costs

NONE

